

It appears that recently the IRS have started auditing 990 and 990EZ filings (tax exempt organization's information return) with a higher frequency than in the past.

**What is an Audit?** An IRS audit is a review/examination by an IRS examiner of your nonprofit returns, books, and organizational documents. The purpose of an audit is usually to ensure that nonprofits operate within the IRS tax exempt guidelines, don't engage in prohibited activities, and don't abuse public funds.

**Who Gets Audited?** Any nonprofit organization can get audited. Normally, the IRS system will select returns that have their concerns, for example your return shows excessive salaries or strange dollar amounts, missing schedules, failure to file unrelated business income tax return (990-T), and other red flag factors. Bad publicity or multiple complaints may result in an audit as well.

**Types of Audits** - Correspondence Audit. This audit is normally done by a written request/letter. The audit letter will contain such information as the tax year(s), form(s), issues involved (which are normally minor), as well as a request for additional information/documentation. - Office Audit. An examiner may request an office audit when there is an issue that cannot be dealt with by correspondence. This type has recently become rarer than a correspondence audit as it consumes more time. - Field Audit. This audit is done by an experienced examiner or even a team of examiners. This audit can last for year and normally deals with serious issues, which may result in imposition of taxes and penalties, and even a

revocation of status.

### **Outcome of Audits**

After the audit process is complete, the examiner will send you a letter with his/her findings. There are a few outcomes the audit might result in: -No change to your status/tax liability (the most beneficial outcome); -No change to your status/tax liability with an advisory (the IRS will follow up if you follow their advice); -Tax Imposition and/or penalties (if unrelated business income is involved); -Modification of the tax exempt status (for example, from a public charity 501c3 to a social club 501c7) or reclassification of status from a public charity to a private foundation. -Revocation of the tax exempt status.

It is advisable to seek professional help when you receive an IRS audit request, as the process might get scrutinous, time consuming, and miscommunication with the examiner might result unfavorably for your organization.

If you do receive an IRS audit request, just give us a call at 877-457-2550 or email us at [info@fgfservices.com](mailto:info@fgfservices.com) for assistance.